Technical Schools on the anniversary of its establishment.●

WHAT THE '93 TAX INCREASE REALLY DID

● Mr. KYL. Mr. President, the former Chairman of the President's Council of Economic Advisors, Martin Feldstein, just wrote an article for the Wall Street Journal about the 1993 tax increase.

For many of us, it confirms what we have been saying all along: that tax rate increases and tax cuts change people's behavior. Just because the Government increases taxes doesn't mean that people will pay more to the Treasury. They will respond to the higher rates by earning less, producing less, and investing less.

That is precisely what Mr. Feldstein found. He wrote:

> Because taxpayers responded to the sharply higher marginal tax rates (imposed by President Clinton in 1993) by reducing their taxable incomes, the Treasury lost two-thirds of the extra revenue that would have been collected if taxpayers had not changed their behavior. Moreover, while the Treasury gained less than $6 billion in additional personal income tax revenue, the distortions to taxpayers' behavior depressed their real incomes by nearly $25 billion.

Mr. President, tax rate increases are counterproductive. If the goal is to increase revenues to the Treasury, the better alternative is to cut tax rates.

Lower tax rates stimulate the economy, resulting in more taxable income and transactions, and more revenue to the Treasury. The tax cuts of the early 1980's are a case in point. Revenues increased from $599.3 billion in fiscal year 1981 to $990.7 billion in fiscal year 1989—up about 65 percent.

The tax bill before the Senate today begins to undo some of the damage done by the 1993 tax increase that President Clinton now disavows. As Martin Feldstein points out, however, it does not go far enough. Congress should also revisit the issue next year to consider rolling back the personal tax rate increases that were part of the Clinton tax bill.

I ask that the entire text of Mr. Feldstein's article be printed in the RECORD.

The article follows:

[From The Wall Street Journal]

WHAT THE '93 TAX INCREASES REALLY DID

(By Martin Feldstein)

President Clinton was right when he recently told business groups in Virginia and Texas that he had raised taxes too much in 1993, perhaps more so than he realizes. We now have the first hard evidence on the effect of the Clinton tax rate increases. The new data, published by the Internal Revenue Service, show that the sharp jump in tax rates raised only one-third as much revenue as the Clinton administration had predicted.

Because taxpayers responded to the sharply higher marginal tax rates by reducing their taxable incomes, the Treasury lost two-thirds of the extra revenue that would have been collected if taxpayers had not changed their behavior. Moreover, while the Treasury gained less than $6 billion in additional personal income tax revenue, the distortions to taxpayers' behavior depressed their real incomes by nearly $25 billion.

HOW IT HAPPENS

To understand how taxpayer behavior could produce such a large revenue shortfall, recall that the Clinton plan raised the marginal personal income tax rate to 36% from 31% on incomes between $140,000 ($115,000 for single taxpayers) and $250,000, and to 39.6% on all incomes over $250,000. Relatively small reductions in taxable income in response to these sharply higher rates can eliminate most or all of the additional tax revenue that would result with no behavioral response.

If a couple with $200,000 of taxable income reduces its income by just 5% in response to the higher tax rate, the Treasury loses more from the $10,000 decline in income ($3,100 less revenue at 31%) than it gains from the higher tax rate on the remaining $50,000 of income above the $140,000 floor ($2,500 more revenue at 5%); the net effect is that the Treasury collects $600 less than it would have if there had been no tax rate increase.

Similarly, a couple with $400,000 of taxable income would pay $18,400 in extra taxes if its taxable income remained unchanged. But if that couple responds to the nearly 30% marginal tax rate increase by cutting its taxable income by as little as 8%, the Treasury's revenue gain would fall 67% to less than $6,000.

How can taxpayers reduce their taxable incomes in this way? Self-employed taxpayers, two-earner couples, and senior executives can reduce their taxable earnings by a combination of working fewer hours, taking more vacations, and shifting compensation from taxable cash to untaxed fringe benefits. Investors can shift from taxable bonds and high yield stocks to tax exempt bonds and to stocks with lower dividends. Individuals can increase tax deductible mortgage borrowing and raise charitable contributions. (I ignore reduced realizations of capital gains because the 1993 tax rate changes did not raise the top capital gains rate above its previous 28% level.)

To evaluate the magnitude of the taxpayers' actual responses, Daniel Feenberg at the National Bureau of Economic Research (NBER) and I studied the published IRS estimates of the 1992 and 1993 taxable incomes of high income taxpayers (i.e., taxpayers with adjusted gross incomes over $200,000, corresponding to about $140,000 of taxable income). We compared the growth of such incomes with the corresponding rise in taxable incomes for taxpayers with adjusted gross incomes between $50,000 and $200,000. Since the latter group did not experience a 1993 tax rate change, the increase of their taxable incomes provides a basis for predicting how taxable incomes would have increased in the high income group if its members had not changed their behavior in response to the higher post-1992 tax rates. We calculated this with the help of the NBER's TAXSIM model, a computer analysis of more than 100,000 random, anonymous tax returns provided by the IRS.

We concluded that the high income taxpayers reported 8.5% less taxable income in 1993 than they would have if their tax rates had not increased. This in turn reduced the additional tax liabilities of the high income group to less than one-third of what they would have been if they had not changed their behavior in response to the higher tax rates.

This sensitivity of taxable income to marginal tax rates is quantitatively similar to the magnitude of the response that I found when I studied taxpayers' responses to the tax rate cuts of 1986. It is noteworthy also that such a strong response to the 1993 tax increases occurred within the first year. It would not be surprising if the taxpayer responses get larger as taxpayers have more time to adjust to the higher tax rates by retiring earlier, by choosing less demanding and less remunerative occupations, by buying larger homes and second homes with new mortgage deductions, etc.

The 1993 tax law also eliminated the $135,000 ceiling on the wage and salary income subject to the 2.9% payroll tax for Medicare. When this took effect in January 1994, it raised the tax rate on earnings to 38.9% for taxpayers with incomes between $140,000 and $250,000 and to 42.5% on incomes above $250,000. Although we will have to wait until data are available for 1994 to see the effect of that extra tax rate rise, the evidence for 1993 suggests that taxpayers' responses to the higher marginal tax rates would cut personal income tax revenue by so much that the net additional revenue for eliminating the ceiling on the payroll tax base would be less than $1 billion.

All of this stands in sharp contrast to the official revenue estimates produced by the staffs of the Treasury and of the Congressional Joint Committee on Taxation before the 1993 tax legislation was passed. Their estimates were based on the self-imposed ''convention'' of ignoring the effects of tax rate changes on the amount that people work and invest. The combination of that obviously false assumption and a gross underestimate of the other ways in which taxpayer behavior reduces taxable income caused the revenue estimators at the Treasury to conclude that taxpayer behavior would reduce the additional tax revenue raised by the higher rates by only 7%. In contrast, the actual experience shows a revenue reduction that is nearly 10 times as large as the Treasury staff assumed.

This experience is directly relevant to the debate about whether Congress should use ''dynamic'' revenue estimates that take into account the effect of taxpayer behavior on tax revenue. The 1993 experience shows that unless such behavior is taken into account, the revenue estimates presented to Congress can grossly overstate the revenue gains from higher tax rates (and the revenue costs of lower tax rates). Although the official revenue estimating staffs claim that their estimates are dynamic because they take into account some taxpayer behavior, the 1993 experience shows that as a practical matter the official estimates are close to being ''static'' no-behavioral-response estimates because they explicitly ignore the effect of taxes on work effort and grossly underestimate the magnitude of other taxpayer responses.

CURRENT PROPOSALS

In Congress had known in 1993 that raising top marginal tax rates from 31% to more than 42% would raise less than $7 billion a year, including the payroll tax revenue as well as the personal income tax revenue, it might not have been possible for President Clinton to get the votes to pass his tax increase.

Which brings us back to President Clinton's own statement (half-recanted the next day) that he raised taxes too much in 1993. Congress and the president will soon be negotiating about the final shape of the 1995 tax package. The current congressional tax proposals do nothing to repeal the very harmful rate increases of 1993. Rolling back both the personal tax rates and the Medicare payroll tax base to where they were before 1993 would cost less than $7 billion a year in revenue and would raise real national income by more than $25 billion. Now that the evidence is in, Congress and the president should agree to undo a bad mistake. ●

OAK PARK'S 50TH ANNIVERSARY

• Mr. LEVIN. Mr. President, I rise today to commemorate the 50th anniversary of the founding of the city of Oak Park, MI. The Family City is most proud of the fact that, despite its great growth over the past 50 years, it has remained primarily a residential community.

Oak Park, MI, was established when voters approved the proposed City Charter on October 29, 1945, and decided that the city should remain a community of families and homes. Over the years, Oak Park residents have remained committed to keeping home as the center of their community. The residents of Oak Park have fought several times to keep large construction projects from changing the face and the feel of their community.

Soon after its inception, Oak Park was dubbed ''The City with a Future.'' In the 1940's, Oak Park had about a thousand residents and a municipality of just over 5 square miles, which was originally developed in the 19th century from a swampy, densely wooded hunting ground. Oak Park grew quickly when many World War II veterans took advantage of GI loans to purchase houses and settle in the area. The city was identified as one of the fastest growing municipalities in the country during the 1950's. It was during this period that the local government structured the municipal services that so effectively serve its residents. During the 1960's, Oak Park had established itself as a mature city with a virtually unchanged population level.

The year 1976 was a turning point in Oak Park's history. When it was named an official Bicentennial City. It is fitting that, during this celebration of the birth of our Nation and the ideals on which it was founded, Oak Park started the transition to the city it is today. Oak Park soon began welcoming newcomers from a variety of backgrounds and adopted a new motto: ''The Family City.'' The city also initiated a program which was dedicated to maintaining the cohesiveness of the community.

Today, Oak Park is a friendly residential community which boasts a population representing over 70 ethnic groups. It celebrated its varied ethnic heritage this year with its 11th Annual International Ethnic Festival.

The city of Oak Park represents the best of what America has to offer—a safe, residential community where all people are welcome.•

WORLD POPULATION AWARENESS WEEK

• Mr. CHAFEE. Mr. President, I rise today in strong support of World Population Awareness Week, which is being observed internationally this week. We are all aware of the challenges we will face in the next century regarding the world's population. According to recent projections by the United Nations, world population is expected to increase by close to 100 million people annually through the year 2015. Within 20 years, the Earth's population will have sharply increased to total 7.7 billion people. Nearly all of this increase will be in the poorest countries in the world, causing overall increases in poverty, illiteracy, environmental problems, hunger, and malnourishment, and a significant strain on the world's natural resources. If area populations continue their rapid growth, the resulting outcome could have a devastating effect on the United States, the world economy, and our planet.

To avoid massive catastrophes, we must begin to reduce run-away population growth through voluntary, rational, humane means. This is the message of World Population Awareness Week, recognized internationally from October 22–29, 1995. I am proud to say that Rhode Island's Governor Lincoln Almond is one of several State Governors to proclaim World Population Awareness Week. In doing so, he asked all Rhode Islanders to join him in ''supporting the Cairo Program of Action,'' a 20-year strategy for stabilizing world population. He also called on ''all government and private organizations to do their part to implement the document.'' I support Governor Almond's proclamation and request that his proclamation be printed in the RECORD.

The 1994 International Conference on Population and Development in Cairo, Egypt was the first important step in the worldwide effort to arrest the huge growth in the world's population. All Americans should be proud of the integral role our delegation played in developing a set of recommendations to curb population growth. We must continue to promote international efforts to inform people about the consequences of dramatic population growth, and I respectfully urge my colleagues to join me in supporting World Population Awareness Week.

The proclamation follows:

THE GOVERNOR OF THE STATE OF RHODE ISLAND—PROCLAMATION

Whereas, world population is currently 5.7 billion, and increasing by nearly 100 million per year, with virtually all of this growth added to the poorest countries and regions; and

Whereas, the annual increment to world population is projected to exceed 86 million through the year 2015, with three billion people, the equivalent of the entire world population as recently as 1960, reaching their reproductive years within the next generation; and

Whereas, the environmental and economic impacts of this level of growth will almost certainly prevent inhabitants of poorer countries from improving their quality of life, and at the same time, affect the standard of living in more affluent regions; and

Whereas, the 1994 International Conference on Population and Development in Cairo, Egypt, crafted a 20-year Program of Action for achieving a more equitable balance between the world's population, environment, and resources, approved by 180 nations, including the United States:

Now, therefore, I, Lincoln Almond, Governor of the State of Rhode Island and Providence Plantations, do hereby proclaim, October 22–29, 1995 as World Population Awareness Week. In the State of Rhode Island and call on all citizens to join with me in recognizing this important week and supporting the Cairo Program of Action and call on all governments and private organizations to do their part to implement the document.•

TRIBUTE TO THE FIFTIETH ANNIVERSARY OF THE SAINT FRANCIS ACADEMY

• Mr. SMITH. Mr. President, I rise today to pay tribute to The Saint Francis Academy in honor of their 50th anniversary. For 50 years now, this outstanding institution has provided guidance and direction to troubled youths and their families through 40 different rehabilitation and therapeutic programs across the United States.

With offices in Kansas, Mississippi, New York, Massachusetts, Ohio, Pennsylvania, and New Mexico, the Saint Francis Academy helps hundreds of children and teenagers develop into responsible and successful adults. Even more impressive is the fact that the Saint Francis Academy program has achieved a scientifically documented success rate of over 70 percent for youth completing residential treatment. This is among the highest success rate in the United States for an organization of this kind.

Founded in 1945 by Father Bob, the academy was originally called the St. Francis Boys' Home. The first residential facility was opened in Ellsworth, KS with the philosophy of therapy in Christ. Within 3 years, another treatment center in Salina, KS opened and began serving conduct disordered youths age 12 through 18. The Saint Francis Academy has grown progressively within the last 50 years with new programs being developed almost every year. In 1990, the academy began an intense 10-day therapeutic wilderness program at Lake Placid called the Adirondack Experience.

In 1945 when Father Bob opened the first facility in Ellsworth, youngsters stayed in the program for an average of 2 to 3 years. Now the average length of time is only 6 to 8 months. The Saint Francis Academy currently helps 150 young men and women achieve success and find personal strength in the spiritual aspect of the programs. They are affiliated with the Episcopal Church.

The Saint Francis Academy staff follow up with the young men and women who graduate from the program three times over a period of 5 years. This is probably one of the most fundamental reasons the academy is so proud of their high success rate. In fact, two graduates of the Camelot program in Lake Placid, NY have gone on to be doctors and lawyers. Father Orville Gatti, a close friend of mine who I greatly admire, is the Chaplain and a therapist at the Lake Placid Academy and has helped a number of youths.

I salute the Saint Francis Academy as it celebrates 50 years of changing the lives of our Nation's young people.•